

Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 EB-07

NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03

LAB-04 SIL-01 L-03 H-02 PA-01 PRS-01 OES-06 INT-05

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R 171155Z NOV 76

FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 042

INFO AMEMBASSY BERN

USMISSION EC BRUSSELS

AMEMBASSY ISLAMABAD

AMEMBASSY LONDON

USMISSION OECD PARIS

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E.O. 11652: NA

TAGS: EFIN

SUBJ: IRAN'S EXTERNAL BORROWINGS-SITREP

REF: TEHRAN 6951 AND PREVIOUS (NOTAL)

1. SUMMARY: ESTIMATES OF IRAN'S OFFICIAL FOREIGN BORROWING PROGRAM FOR YEAR 2535(ENDS MARCH 20,1977) HAVE BEEN REVISED DOWNWARD FROM \$1.6 BILLION TO \$1 BILLION IN THE CENTRAL BANK OR IAN'S (CBI) RECENT BALANCE OF PAYMENTS REVISION. WITH QUASI-PUBLIC DEVELOPMENT BANKS AND OTHER LONG-TERM PRIVATE BORROWING ADDED, THE PREVIOUS TOTAL ESTIMATE OF \$3 TO 3.5 BILLION FOREIGN BORROWINGS DECLINES TO \$1.6-\$1.8 BILLION EXCLUDING SUPPLIERS CREDITS, ON WHICH NO DATA ARE AVAILABLE. AGREEMENT ON TERMS FOR THE FIRST BORROWING BY THE IMPERIAL GOVERNMENT OF IRAN SINCE 1973 APPEARS TO HAVE BEEN REACHED NOVEMBER 15,
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FOR THE CHASE MANHATTAN-LED PLACEMENT OF \$500 MILLION. END SUMMARY.

2. OWING PARTICULARLY TO A LOWER LEVEL OF IMPORT GROWTH AND, LESS SIGNIFICANTLY, TO HIGHER OIL INCOME THAN ANTICIPATED AT THE

OUTSET OF THIS IRANIAN YEAR 2534, REDUCED FOREIGN EXCHANGE REQUIREMENTS WILL DECREASE THE FOREIGN BORROWING PROGRAM. WHEREAS EMBASSY'S EARLIEST FORECAST (TEHRAN 3537), CASH FLOW BASIS AND BASED LARGELY ON GOI BUDGET, WAS FOR \$2 BILLION PUBLIC SECTOR SYNDICATIONS/BONDS AND SUPPLIER CREDITS, IT APPEARS NOW THAT OFFICIAL AND QUASI-OFFICIAL (I.E. DEVELOPMENT BANKS) LONG-TERM INFLOWS ABOUT \$400 MILLION AND SUPPLIERS CREDITS PUBLIC (EXCLUDING MILITARY) AND PRIVATE OVER \$1 BILLION. THE IMPORT BILL AT END FIRST SIX MONTHS (SEPTEMBER 22) WAS ACTUALLY DOWN 10.7 COMPARED TO THE SAME PERIOD 2534; EMBASSY'S REVISED 8 PERCENT INCREASE ESTIMATE FOR YEAR FALLS WITHIN CBI'S RECENTLY REVISED 5-10 PERCENT INCREASE ESTIMATE. THIS LOWER IMPORT GROWTH RATE, REFLECTING DELAYS IN GOI COMMODITY PURCHASING AND PROJECT DISBURSEMENT PLUS WORKING DOWN OF PUBLIC AND PRIVATE PIPELINE AND INVENTORIES, HEAVY USE OF SUPPLIER CREDITS, AND NEW USE OF ACCEPTANCE FINANCING, HAS REDUCED FOREIGN EXCHANGE NEEDS.

3. A \$200 MILLION SYNDICATION BY IOIB (IRAN OVERSEAS INVESTMENT BANK) FOR THE IMDBI (INDUSTRIAL AND PLANNING DEVELOPMENT BANK OF IRAN) WAS SIGNED SEPTEMBER 16 AND HAS BEEN COMPLETELY DRAWNDOWN. AS ANTICIPATED IN PAR. 10, TEHRAN 3537, IMDBI INITIALLY SOUGHT \$100 MILLION, BUT IT WAS CONVINCED BY CITIBANK THAT THE MARKET WOULD RESPOND FAVORABLY TO \$200 MILLION. (CITIBANK NONETHELESS LOST LEADERSHIP BID.) TEN BANKS (7 MEMBERS OF IOIB PLUS CHASE, CITICORP AND BANQUE NATIONALE DE PARIS) EACH TOOK \$20 MILLION AND SOLD HALF. THE RATE, AT 1 AND 3/8 OVER LIBOR, WAS THE SAME AS THE NPC'S \$250 MILLION, WHICH HAD GOI GUARANTEE, BUT THE TERM ONE YEAR. OVER-SUBSCRIBED BY \$100 MILLION, THE SYNDICATION ENCOURAGED THE IRANIAN MONEY MARKET.

4. IN JULY, THE MIXED SECTOR BANK SAKHTEMAN (CONSTRUCTION BANK) BORROWED \$20 MILLION VIA A SYNDICATION BY N.M. ROTHSCHILD AND IOIB (1 AND 5/8 OVER LIBOR AND 4 YEARS); THE PARSYLON CORPORATION OF IRAN OBTAINED \$20 MILLION BY A SYNDICATION CO-MANAGED BY FOUR EUROPEAN BANKS AND CONTINENTAL OF CHICAGO (1 AND 1/2 OVER LIBOR, 6 YEARS AND GUARANTEED BY THE GOI'S INVESTMENT CREDIT BANK) AND IRANO-INTAIRDRIL S.S.K. OBTAINED \$11 MILLION (1 AND 1/2 OVER LIBOR, LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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5 YEARS, 7/8 MANAGEMENT FEE AND GUARANTEED BY IMDBI) THROUGH A EURODOLLAR PLACEMENT BY IOIB.

5. THE \$200 MILLION SYNDICATION FOR THE IMDBI BROUGHT IRAN'S EURODOLLAR SYNDICATIONS THIS IRANIAN YEAR TO \$601 MILLION; THIS WILL INCREASE TO \$1,114 MILLION WHEN A GOI DIRECT \$500 MILLION PLACEMENT IS SIGNED. DATA ON THE GREGORIAN YEAR ARE LESS PRECISE, BUT BEST FIGURE IS \$341 MILLION IN THE FIRST QUARTER, INCLUDING THE IMDBI'S \$30 MILLION EURODOLLAR BOND ISSUE, WHICH TOTALS A DEFINITE \$995 MILLION FOR THE FIRST NINE MONTHS OF 1976. IT IS DIFFICULT TO DETERMINE WHETHER SOME BORROWINGS WERE COMPLETED IN 1975 OR 1976, BUT BEST RECKONING IS \$270 MILLION IN EURODOLLAR

SYNDICATIONS IN 1975.

A. A RECAPITULATION OF FIRST QUARTER 1976 BORROWINGS, WHICH IS BEFORE START OF YEAR 2534, SHOWS IN \$ MILLIONS:

AGRICULTURAL DEVELOPMENT BANK OF IRAN (ADBI)	- 100
DEVELOPMENT AND INVESTMENT BANK OF IRAN(DIBI)	- 30
NATIONAL IRANIAN TANKER CO.(NIOC SUBSIDIARY)	- 60.9
BANK PARS	- 10
BANK SANAYE IRAN	- 40
INTERNATIONAL BANK OF IRAN AND JAPAN	- 20
INDUSTRIAL CREDIT BANK	- 50
IMDBI EURODOLLAR BOND	- 30
TOTAL 1ST QUARTER 1976	340.9

B. KNOWN IRANIAN YEAR 2535 EURODOLLAR SYNDICATIONS ARE:

ICB	- 100
NATIONAL PETROCHEMICAL COMPANY	- 250
CONSTRUCTION BANK	- 20
PARSYLON	- 20
IRANO-INTAIRDRIL	- 11
IMDBI	- 200
TOTAL 2535	601

6. AFTER TORTUOUS NEGOTIATIONS, CHASE MANHATTAN CONCLUDED NOVEMBER 15 WHAT IT BELIEVES IS FINAL AGREEMENT WITH GOI FOR THE \$500 MILLION EURODOLLAR PLACEMENT WITH 11 FOREIGN BANKS (REFTEL): DATE OF LOAN SIGNING IS DEPENDENT ON GOI PROCEDURES BUT HOPED FOR BY END-NOVEMBER WHEN DAVID ROCKEFELLER WILL BE IN LONDON. THIS PLACEMENT WAS CONSIDERED ESSENTIALLY CONCLUDED MID-JUNE (TEHRAN 6036), BUT PROLONGED NEGOTIATION ON ISSUES OF GOI AUTHORITY TO BORROW, CROSS-DEFAULT, SOVEREIGN IMMUNITY, LIMITED OFFICIAL USE
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MATERIAL CHANGE AND NEGATIVE PLEDGE TURNED THE MATTER INTO A NIGHTMARE IN VIEW OF CHASE MANHATTAN, THE NOW-RELUCTANT MANAGER. CHASE HAS BEEN ITSELF CAUGHT BETWEEN THE SEVEN US BANKS WHO HAVE BEEN MOST INSISTENT ON STRINGENT LANGUAGE IN LOAN DOCUMENT AND MORE LIBERAL THREE EUROPEAN BANKS WITH WHICH IT HAS FELT MORE AKIN. DIMINISHED NEED FOR FUNDS ALSO MOTIVATED GOIS

APPROACH LOAN AS A DOCUMENTATION EXERCISE, ESTABLISHING THE PROTOTYPE FOR IMPERIAL GOVERNMENT OF IRAN'S LOANS, OF WHICH THIS WILL BE THE FIRST SINCE 1973. COMPETITIVE, CONCURRENT ATTEMPTS BY CITIBANK AND BANK OF AMERICA TO MANAGE UP TO \$1 BILLION GOI BORROWING ALSO MUDDIED WATERS FOR CHASE. CONSTITUTIONAL ISSUED ON BORROWING AUTHORITY WERE SETTLED BY A LETTER OF INTERPRETATION BY THE MINISTER OF JUSTICE. IRAN'S AGREEMENT TO ACCEPT JUDGEMENTS FROM ENGLISH OR NEW YORK JURISDICTIONS IN EFFECT SETTLES SOVEREIGN IMMUNITY ISSUE. BANKS DROPPED THE "MATERIAL CHANGE CLAUSE" AND COMPROMISED ON CROSS-DEFAULT AND NEGATIVE PLEDGE. THE SURPRISE TO DATE IS THAT GOI HAS NOT DEMANDED A LOWERING OF THE INTEREST RATE FROM 1 AND 3/8 OVER LIBOR IN LIGHT OF VENEZUELA'S RECENT \$1 BILLION SYNDICATION AT 1 AND 1/8. CHASE HAS BELIEVED ALL WAS

IN ORDER BEFORE, SO ONE CANNOT PRECLUDE FURTHER GOI DEMANDS
BEFORE THE CURRENTLY ANTICIPATED END-NOVEMBER LONDON SIGNING.
WHETHER OR NOT THE GOI WILL DRAW DOWN ALL \$500 MILLION IN 2535 IS
PROBLEMATIC BUT INTEREST RATE AND 0.5 COMMITMENT FEE AFTER 45 DAYS
IS AN INCENTIVE.

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INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 EB-07

NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

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7. OTHER BORROWING AND DRAWDOWN POSSIBILITIES FOR 2535(BEFORE
MARCH 20,1977) EXIST AS FOLLOWS:

A. ICB HAS \$120 MILLION UNUSUED BORROWING AUTHORITY WHICH
EXPIRES IN 2535 AND MAY UTILIZE IT JUST TO AVOID VEXING APPROVAL
CYCLE.

B. ADBI IS REPORTEDLY (FIRST BOSTON CORP.) CONSIDERING \$30 -
\$40 MILLION EURODOLLAR BOND ISSUE AND RECENTLY WAS CONSIDERING A
\$100 MILLION IOIB SYNDICATION TO MEET ITS HEAVY FOREIGN EXCHANGE
NEEDS.

C. TELECOMMUNICATIONS COMPANY OF IRAN(TCI), A GOI CORPORA-
TION, HAS RECENTLY APPROACHED SEVERAL BANKS TO LEAD A \$180 MILLION
SYNDICATION.

D. FOREIGN TRANSACTIONS COMPANY, MINISTRY OF COMMERCE'S
PURCHASING AGENCY, HAS BEEN DISCUSSION SHORT-TERM TRADE FINANCE
NEEDS OF \$500 MILLION (WELLS FARGO IS DISCUSSION THE POSSIBILITY
OF A"SYNDICATED ACCEPTANCE FINANCING" IN U.S. TO COVER THIS.)

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E. DIBI, WHICH HAS NOT TOUCHED ITS \$65 MILLION BORROWING AUTHORITY, IS REPORTEDLY PLACING MEDIUM-TERM BORROWING THROUGH ITS CORRESPONDENT RELATIONSHIPS ON EURODOLLAR MARKET.

F. IMDBI AND DIBI ARE NEGOTIATING WITH BANK OF AMERICA FOR 7 YEAR, 9 PERCENT FIXED INTEREST "CALIFORNIA DOLLAR" BORROWINGS; BANK OF AMERICA THINKS IMDBI MAY TAKE \$25 MILLION, DIBI \$15 MILLION.

8. HURDLE TO THE LONG-PENDING GOI GUARANTEE OF A \$300 MILLION PRIVATE BANK CONSORTIUM LOAN TO PAKISTAN SHOULD BE REMOVED WHEN THE GOI'S \$500 MILLION DIRECT BORROWING IS CONCLUDED. BASED ON DISCUSSION WITH CITIBANK'S OFFICE, TEHRAN, NEITHER GOP NOR GOI HAS COMPLETED REVIEW OF THE LOAN DOCUMENT. THIS ASIDE, THE GOI GUARANTEE IS STILL (TEHRAN 7071) CONSIDERED CERTAIN.

9. AS OF SEPTEMBER 22, CBI BALANCE OF PAYMENTS FOR 2535 SHOWED LONG-TERM OFFICIAL INFLOWS OF \$304 MILLION AND PRIVATE INFLOWS OF \$200 MILLION. TO BEST OF KNOWLEDGE, THESE FLOWS DO NOT INCLUDE \$125 MILLION(HALF) OF NPC LOAN, \$20 MILLION OF ICB'S \$100 MILLION, AND IMDBI'S \$200 MILLION. WHEN THESE \$345 MILLION INFLOWS ARE POSTED AND ALL OR MOST OF THE \$500 MILLION IS DRAWN-DOWN, LONG-TERM INFLOWS WILL REACH THE REVISED ESTIMATED OF \$1.4 BILLION INFLOWS(\$1 BILLION OFFICIAL). INFLOWS FROM PROSPECTIVE BORROWINGS WOULD, THUS, RAISE THIS CONSERVATIVE ESTIMATE ACCORD-INGLY AND RESULT IN INCREMENTING IRAN'S EXCHANGE RESERVES.

10. ALTHOUGH THE MINISTRY OF ECONOMIC AFFAIRS AND FINANCE(MEAF) IN PERSON OF UNDERSECRETARY JAMSHID ASHRAFI, HAS REGAINED ITS DOMINANCE IN THE FOREIGN EXCHANGE FINANCE ACTIVITY, THE PUBLIC SECTOR'S FOREIGN EXCHANGE PROGRAM STILL LACKS ADEQUATE COORDINA-TION. MEAF, NONETHELESS, APPEARS TO BE ACHIEVING SOME SUCCESS IN NETTING OUT THE EXCESS APPETITE FOR FOREIGN EXCHANGE FROM ACTUAL DISBURSEMENT NEEDS AND THIS NEW DISCIPLINE IS CONTRIBUT-ING TO THE LOWERED ESTIMATE OF BORROWINGS.

HELMS

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